

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
TAX-EXEMPT EQUIPMENT FINANCING PROGRAM
GENERIC EQUIPMENT PROGRAM**

EXECUTIVE SUMMARY

<p>Applicant: Loma Linda University Medical Center 11234 Anderson Street Loma Linda, CA 92354 San Bernardino County</p> <p>Project Site: Loma Linda, California</p> <p>Facility Type: Acute care hospital</p> <p>Obligated Group: Loma Linda University Medical Center (LLUMC)</p>	<p>Amount Requested: \$6,250,000</p> <p>Requested Loan Term: 5 years</p> <p>Date Requested: September 26, 2002</p> <p>Resolution Number: E-21</p>																					
<p>Use of Loan Proceeds: Loan proceeds will be used to purchase various equipment items which will enhance LLUMC's ability to provide high levels of care and reduce patient wait times.</p>																						
<p>Type of Issue: Private Placement</p> <p>Security: First lien on equipment</p> <p>Expected Rating: Unrated</p> <p>Placement Agent/Lender: Citicorp Real Estate Inc. ("Citicorp")</p> <p>Bond Counsel: Orrick, Herrington & Sutcliffe LLP</p>																						
<p>Financial Overview: LLUMC has posted solid profitability over the past two fiscal years, reversing the operating losses of fiscal year 1999. This equipment purchase will help LLUMC achieve further revenue enhancements and expenditure reductions. LLUMC maintains positive balance sheet characteristics with good liquidity and satisfactory debt service coverage, including this proposed financing.</p>																						
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																						
<p>Staff Recommendation: Staff recommends the Authority approve an equipment financing resolution for Loma Linda University Medical Center in an amount not to exceed \$6,250,000 with a term of five years.</p>																						

**STAFF SUMMARY AND RECOMMENDATION
TAX-EXEMPT EQUIPMENT FINANCING PROGRAM
Generic Equipment Program
Loma Linda University Medical Center (LLUMC)**

September 26, 2002
Resolution Number: E-21

I. PURPOSE OF FINANCING: Loma Linda University Medical Center intends to purchase equipment to improve operational efficiencies through better information systems and more cost-effective diagnostic and treatment technologies.

The details of the project are shown below:

Equipment	<u>\$6,661,000</u>
<i>GE Medical CT Scanner, 16 slices</i>	<i>\$1,695,000</i>
<i>G.E. Medical PET CT</i>	<i>2,478,000</i>
<i>Siemens M.R.I.</i>	<i>1,832,000</i>
<i>Nicolte Biomed Digital Video/EEG sytsem</i>	<i>656,000</i>

The above items will enhance LLUMC ‘s ability to provide high levels of care and increase access. The CT Scanner, PET CT and M.R.I. will be housed in an outpatient imaging center within 1 mile of the main Adult and Children’s Hospital campuses.

- The CT Scanner and M.R.I .will provide additional access by increasing capacity and reducing wait times.
- The PET CT is new technology for LLUMC and will provide enhanced diagnostic capabilities.
- The Digital Video/EEG equipment replaces outdated equipment with higher levels of technology, providing enhanced patient diagnostic capabilities.

Costs of Issuance	<u>33,000</u>
<i>Bond Counsel.....</i>	<i>\$20,000</i>
<i>Issuer Fee.....</i>	<i>3,125</i>
<i>Advisory Fees.....</i>	<i>9,390</i>
<i>Escrow Agent Fees.....</i>	<i>485</i>
 Total Uses of Funds	 <u>\$6,694,000</u>

Structure of Financing:

- Tax-exempt revenue note.
- Privately placed with Citicapital/Citicorp Inc.
- Five-year loan fully amortized.
- Fixed interest rate estimated at 4.05% (final rate to be determined two days prior to escrow funding).
- Estimated monthly payment is \$115,000.
- Citicapital/Citicorp Inc. will be granted a first priority security interest in the equipment.

[Financial statements and analysis on following pages]

II. FINANCIAL STATEMENTS AND ANALYSIS:

LOMA LINDA UNIVERSITY MEDICAL CENTER

(UNRESTRICTED)

Statement of Activities ⁽¹⁾

	Seven-month			
	Period Ending			
	<u>July 31,</u>	<u>For the Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(unaudited)			
Revenues:				
Net Patient Revenue	\$ 329,256,365	\$ 526,668,827	\$483,235,851	\$397,725,126
Premium Revenue	2,210,144	3,696,737	23,757,190	135,561,845
Other Revenue	17,358,404	24,025,913	22,215,751	28,766,715
Investment Income	1,280,982	3,941,680	4,168,945	8,655,281
Net Assets Released from Restrictions	-	3,329,209	1,556,627	3,248,337
Total revenues	<u>350,105,895</u>	<u>561,662,366</u>	<u>534,934,364</u>	<u>573,957,304</u>
Expenses:				
Employee Compensation	184,458,022	283,014,438	258,715,421	246,528,646
Professional Fees	11,967,547	14,732,440	12,215,427	18,903,874
Supplies	60,292,035	99,083,199	92,539,327	82,268,790
Outside provider costs	764,389	1,355,071	25,525,792	109,206,892
Other Expenses	45,223,776	80,827,438	75,537,436	68,658,147
Provision for Doubtful Accounts	8,177,700	17,511,977	16,478,817	2,240,160
Interest	6,055,059	12,633,789	11,877,597	13,325,558
Depreciation and Amortization	20,484,726	31,490,461	27,244,771	28,176,212
Total Expenses	<u>337,423,254</u>	<u>540,648,813</u>	<u>520,134,588</u>	<u>569,308,279</u>
Operating income	12,682,641	21,013,553	14,799,776	4,649,025
Transfer to affiliates	(2,379,167)	(5,583,333)	-	(9,600,000)
Non-operating revenue, net	137,142	-	(6,141,667)	-
Change in net unrealized gain	(2,283,235)	(2,063,089)	(3,088,703)	(6,538,587)
Extraordinary loss on extinguishment of debt	-	-	-	(4,159,881)
Increase in unrestricted net assets	8,157,381	13,367,131	5,569,406	(15,649,443)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>183,409,094</u>	<u>170,041,963</u>	<u>164,472,557</u>	<u>180,122,000</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 191,566,475</u>	<u>\$ 183,409,094</u>	<u>\$170,041,963</u>	<u>\$164,472,557</u>

(1) Financial statements for Loma Linda University Medical Center (LLUMC). LLUMC's affiliates shown on page 6 are not included in these financial statements.

LOMA LINDA UNIVERSITY MEDICAL CENTER

Statement of Financial Position ⁽¹⁾

	As of July 31	As of December 31,		
	2002	2001	2000	1999
ASSETS	(Unaudited)			
Current Assets:				
Cash and Cash Equivalents	\$ 84,326,159	\$ 76,564,648	\$ 71,684,942	\$ 91,970,483
Short Term Investments	-	389,651	790,098	2,541,837
Patient Accounts Receivable, net	85,697,923	95,736,829	106,774,642	83,367,410
Third Party Receivables	20,669,309	24,919,664	14,211,345	11,405,206
Other Receivables	17,048,581	11,554,610	16,005,517	23,966,688
Prepaid Expenses	4,370,532	7,142,193	6,685,832	5,964,953
Total current assets	212,112,504	216,307,595	216,152,376	219,216,577
Assets Whose Use is Limited:				
Held by Bond Trustee	25,084,873	24,709,501	24,052,642	15,673,109
Donor-Restricted Investments	4,371,774	-	-	11,085,002
Rental Property	39,015,327	37,772,723	38,481,867	40,847,282
Deferred financing costs, net	8,099,109	8,277,054	8,741,461	9,268,331
Other long-term assets	4,181,739	5,586,159	5,637,359	3,523,630
Total Assets Whose Use is Limited	80,752,822	76,345,437	76,913,329	80,397,354
Property, plant and equipment, net	272,730,146	277,470,947	287,587,391	297,132,699
TOTAL ASSETS	\$ 565,595,472	\$ 570,123,979	\$ 580,653,096	\$ 596,746,630
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	\$ 20,371,452	\$ 42,995,051	\$ 70,713,680	\$ 40,506,744
Accrued Liabilities	49,724,390	24,628,137	24,021,862	26,772,511
Accrued medical claims	-	318,021	1,644,965	30,264,970
Line of Credit	-	-	-	10,000,000
Current Maturities of Long-Term Debt	11,492,049	11,714,964	10,825,401	10,292,175
Due to Affiliate	8,893,056	23,900,194	8,264,053	12,014,703
Total Current Liabilities	90,480,947	103,556,367	115,469,961	129,851,103
Long-Term Debt (less current portion)	265,904,282	265,816,235	275,223,036	285,754,726
Deferred Revenue	2,691,624	3,253,087	4,438,104	5,583,242
TOTAL LIABILITIES	359,076,853	372,625,689	395,131,101	421,189,071
NET ASSETS:				
Unrestricted Net Assets	191,566,475	183,409,094	170,041,963	164,472,557
Temporarily Restricted Net Assets	14,952,144	14,089,196	15,480,032	11,085,002
TOTAL LIABILITIES AND NET ASSETS	\$ 565,595,472	\$ 570,123,979	\$ 580,653,096	\$ 596,746,630

Financial Ratios:

	Proforma ⁽²⁾			
	FYE Dec 2001			
Debt Service Coverage (x)	1.98	2.07	1.78	1.10
Debt/Unrestricted Net Assets (x)	1.62	1.51	1.60	1.77
Margin (%)		4%	3%	1%
Current Ratio (x)		2.09	1.87	1.69

(1) Financial statements for Loma Linda University Medical Center (LLUMC). LLUMC's affiliates shown on page 6 are not included in these financial statements.

(2) Recalculates December 2001 audited results to include the impact of this proposed financing.

Financial Discussion:

LLUMC has posted solid profitability over the past two fiscal years, reversing the operational losses of fiscal year 1999.

LLUMC has posted solid profits in fiscal years 2000 and 2001 of \$5.5 million and \$13.3 million respectively, with margins ranging from 3% to 4%. Fiscal year 2002 year-to-date unaudited results were also impressive, with LLUMC posting a \$8.1 million profit.

During fiscal year 1999, several factors contributed to LLUMC's weakened financial position. The major factor was that LLUMC had a substantially higher number of full risk contracts, which negatively affected operating cash flow. For example, management indicates that capitated contracts for fiscal year 1999 accounted for approximately 250,000 lives compared to the current fiscal year of only 2,000 lives. Additional contributing factors included lower reimbursement levels, higher operational costs, Medicare reimbursement changes resulting from the Balanced Budget Act of 1997, year 2000 compliance costs, large investment losses, transfers to money-losing affiliates, and general inflation.

When LLUMC appeared before the Authority in 1999, management acknowledged its weakened financial position and provided detailed plans to the Board for financial recovery. Based on its 2000 and 2001 audited results, as well as current unaudited results for 2002, that plan has returned LLUMC to a significantly stronger entity. LLUMC's margin has increased substantially, meeting or exceeding management's target of 3% through its continued efforts of implementing additional cost savings and revenue enhancements. Future major strategies include further reductions in at-risk managed care losses and securing increased governmental program reimbursement.

This equipment purchase will help LLUMC achieve further revenue enhancements and expenditure reductions.

LLUMC projects another positive year, which based upon the interim financials for the current period, is largely assured. This equipment purchase will help LLUMC continue to improve operational efficiencies through more cost-effective treatment, thus leading to increased net income as well as providing additional community benefits.

LLUMC maintains positive balance sheet characteristics with good liquidity and satisfactory debt service coverage including this proposed financing.

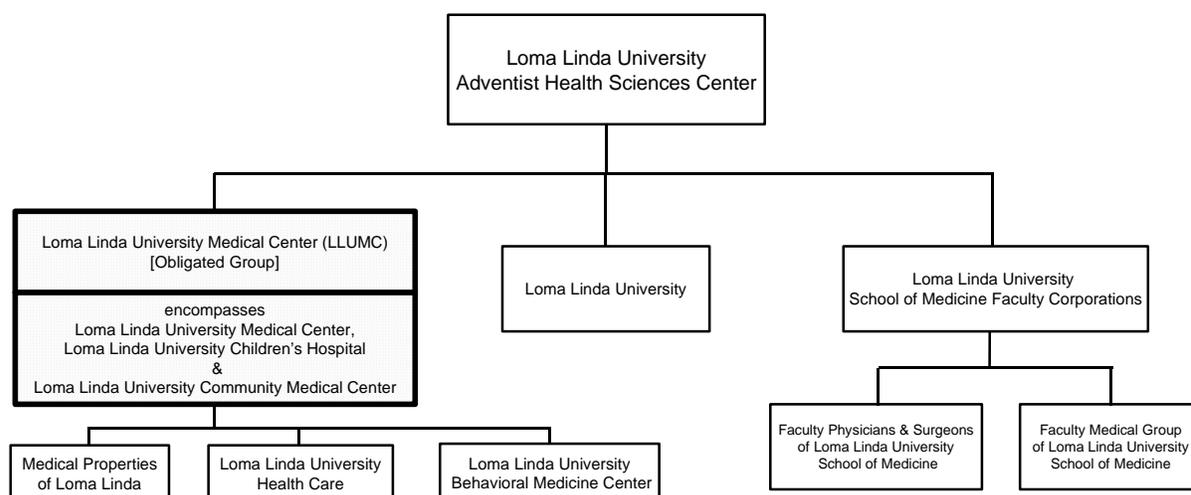
LLUMC has maintained positive balance sheet characteristics, including a strong current ratio bolstered by a good cash position. This proposed financing is the fourth in a series of equipment loans for LLUMC. Consistent with the 2001 financing, this proposed equipment purchase will be structured as an operating lease. LLUMC is highly leveraged with a debt to unrestricted net assets ratio of 1.51x. However, it continues to maintain adequate debt service coverage of 2.07x in 2001 and a proforma debt service coverage of 1.98x. These acceptable debt service coverage ratios indicate that LLUMC should be able to manage the additional debt service payments comfortably.

III. UTILIZATION STATISTICS

	2001	2000	1999
Acute Beds:			
Licensed Beds/In Service Beds	789/653	789/653	791/653
Occupied Beds/In Service Beds	73.50%/75.3%	61.5%/74.3%	62.1%/75.2%
Average Length of Stay (Days)	5.7	5.6	5.6
Admissions	30,530	31,419	31,806
Patient Days	175,323	177,102	179,235
Emergency Visits	50,682	51,231	57,883
Outpatient Visits	538,527	494,512	436,851
Outpatient Surgery Visits	10,012	10,119	10,106
Inpatient Revenues	73.92%	75.23%	76.44%
Outpatient Revenues	<u>26.08%</u>	<u>24.77%</u>	<u>23.56%</u>
Totals	<u>100.00%</u>	<u>100.00%</u>	<u>100.0%</u>

IV. BACKGROUND: LLUMC, a California non-profit public benefit corporation, serves as a teaching hospital for Loma Linda University and provides a comprehensive range of inpatient and outpatient services. LLUMC is the primary tertiary care facility in the San Bernardino-Riverside county area, providing Level I trauma care, proton therapy and organ transplantation.

Corporate Organization:



LLUMC facilities will be the sole obligor for this financing. As shown in the chart above, LLUMC is part of the Loma Linda University Adventist Health Sciences Center (LLUAHSC) health system. LLUMC's affiliated entities shown in the chart are part of the

LLUAHSC medical delivery network, but will not be obligated under any of the terms set forth in the loan documents.

Services: LLUMC offers a wide range of general and specialty clinic, ancillary and physician services. Inpatient and outpatient services include cardiac, respiratory, radiation, physical therapy, occupational therapy, organ transplantation, nuclear medicine, dental services, cardiovascular surgery, pediatric, intensive care, acute care and emergency services.

LLUMC also offers inpatient and outpatient rehabilitation, adult day care and adult day health and home care services and houses Centers for Fertility, Joint Replacement, Pain Management, Diabetes Treatment, Proton Treatment and Sleep Disorders.

Service Area: LLUMC provides comprehensive health services to a diverse population. LLUMC's primary service area is the San Bernardino-Riverside County region, given its location near the Riverside-San Bernardino County line. The primary service area includes the communities of Adelanto, Alta Loma, Apple Valley, Banning, Barstow, Beaumont, Big Bear, Bloomington, Calimesa, Chino, Chino Hills, Colton, Corona, Crestline, Fontana, Grand Terrace, Hemet, Hesperia, Highland, Lake Elsinore, Loma Linda, Mentone, Mira Loma, Moreno Valley, Murrieta, Ontario, Perris, Rancho Cucamonga, Redlands, Rialto, Riverside, San Bernardino, San Jacinto, Sun City, Temecula, Upland, Victorville and Yucaipa. These communities account for 80% of the discharges from LLUMC.

LLUMC is the only trauma center serving Riverside, San Bernardino, Mono and Inyo counties. It is the main Level 1 trauma center between Orange County and Utah.

Competition: LLUMC faces competition from a number of hospitals in the San Bernardino-Riverside County region. However, it maintains its position as a market leader in terms of patient days, with a market share of 11%. LLUMC is the primary tertiary care provider in the area.

Licenses: LLUMC is licensed by the State Department of Health Services to operate as a General Acute Care Hospital with nearly 800 beds. LLUMC participates in Medicare, Medi-Cal and managed care programs as discussed below:

Medicare: LLUMC is certified to provide health care services to participants in various Medicare plans. There is no contract expiration date for these plans. Medicare revenues provide approximately 29% of total support and revenue.

Medi-Cal: LLUMC has a Medi-Cal contract, which is renewed every two years. The current contract expires at the end calendar year 2003. Medi-Cal revenues provide approximately 31% of total support and revenue.

Managed Care: LLUMC continues to expand and improve its mix of managed care contracts, moving away from full risk capitation agreements to shared risk contracts characterized by per diems, case rates, and percentage of charge reimbursements. Illustrative of that trend is the decrease in facility risk membership from 250,000 lives in 1999 to 2,500 in 2002. Managed care represents approximately one-half of LLUMC revenues, and LLUMC maintains 135 contracts with various HMOs, PPOs, and commercial insurance plans.

V. OUTSTANDING DEBT

Following this proposed financing, LLUMC will have \$296,454,028 outstanding long-term debt, with \$18,922,829 representing CHFFA debt. The composition of LLUMC's total long-term debt structure is shown below:

Date Issued	Original Amount	Amount Outstanding as of 12/31/01 ⁽¹⁾	Estimated Amount Outstanding after Proposed Financing
Existing Debt:			
CHFFA Equipment Financing December 1999 ⁽²⁾	\$11,170,000	\$8,257,639	\$8,257,639
CHFFA Equipment Financing June 2001 ⁽²⁾	4,720,000	4,415,190	4,415,190
Hospital Revenue Refunding 1999 A Bonds ⁽³⁾	109,335,000	97,070,000	97,070,000
Hospital Revenue Refunding 1992 A Bonds ⁽³⁾	14,965,000	11,930,000	11,930,000
Hospital Revenue 1993 A Bonds ⁽³⁾	62,565,000	56,295,000	56,295,000
Hospital Revenue 1993 B-D Bonds/COPs ⁽³⁾	113,125,000	105,065,000	105,065,000
Note Payable	4,355,000	3,721,495	3,721,495
Other Debt	3,744,476	3,449,704	3,449,704
Proposed:			
CHFFA Equipment Financing 2002 ⁽²⁾			6,250,000
Total Debt		<u>\$290,204,028</u>	<u>\$296,454,028</u>

- (1) The amount outstanding combines long-term debt and current maturities of long-term debt. The amounts shown above exhibit total debt for LLUMC only.
- (2) Operating leases, represents CHFFA debt.
- (3) Issued through the City of Loma Linda

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through)

Savings resulting from this proposed tax-exempt financing will contribute to LLUMC's long-term viability and allow a higher level of care. In addition, it will allow LLUMC to continue providing healthcare services at no cost to individuals who meet certain financial criteria. LLUMC's estimated savings over commercial financing (based on an estimated commercial interest rate of 7.5%), is projected to be approximately \$50,000 annually.

These savings will be used by LLUMC to continue its mission of providing charity care, which was approximately \$12 million in 2001, and \$9.3 million in 2000.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement)

LLUMC has submitted its physician's list dated August 19, 2002 as required by Section 15459.1 (b) of the Act.

VIII. COMPLIANCE WITH SEISMIC REGULATIONS

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030. All general acute care hospital owners must have performed seismic evaluations on each hospital building by January 1, 2001, and submit a plan for achieving compliance if the buildings do not meet SB 1953 seismic standards to the Office of Statewide Health Planning and Development (OSHPD) for review by January 1, 2002.

Seismic evaluations have been completed for LLUMC and Loma Linda University Community Medical Centers (LLUCMC). The evaluation reports were submitted to OSHPD in the first quarter of 2001. These evaluations are currently being developed into a construction plan to meet all requirements of OSHPD within the required timeframe.

SB 1953 improvements are currently budgeted at \$53,000,000 for LLUMC and \$2,500,000 for LLUCMC to be completed by 2008. These improvements are included in LLUMC's Capital Budget and have been approved by its Board.

LLUMC has received external Federal grants in the amount of \$36 million to assist in completing the seismic retrofit, leaving approximately \$17 million of project costs to be funded by LLUMC internal funds. LLUCMC will fund its seismic retrofit by internal funds also.

IX. STAFF RECOMMENDATION: Staff recommends the Authority approve an equipment financing resolution for Loma Linda University Medical Center in an amount not to exceed \$6,250,000.